Testimony of
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Thank you, Mr. Chairman and Members of the Committee. I appreciate the opportunity to appear before you today to discuss agricultural trade issues.

The Importance of Trade to U.S. Economic Prosperity

Trade is essential to our domestic prosperity and to our long-term economic security. It is both a pocketbook issue and a strategic issue. Over the last 4 years, trade has accounted for fully one-fourth of the growth in our GDP. Under the President's leadership, we have negotiated over 200 trade agreements since 1992, all designed to advance our domestic economic and trade interests. Exports are at record levels and have grown appreciably:

- Goods and services exports (excluding investment earnings) in 1996 were $836 billion, some 35 percent higher than in 1992;

- Exports of manufactured products were $523 billion last year, or 42 percent higher than in 1992; and

- Agriculture exports grew from $42.6 billion in 1992 to a record $59.8 billion in 1996.

Since 1992, jobs supported by exports rose by an estimated 1.5 million to an estimated 11.3 million in 1996. Every billion dollars of U.S. goods and services exported supports approximately 14,000 jobs, and jobs supported by exports pay an average of 13 percent to 16 percent higher than the U.S. national average.

Export-driven growth is one of the reasons that the American economy today is strong and sound. Unemployment is at its lowest level in 24 years -- 4.8 percent; inflation is down to a low of 2.2 percent, for the period ended May 1997; and family incomes are up significantly.

Trade and Agriculture

Trade and U.S. agriculture are virtually indistinguishable, with fiscal 1996 another record year for U.S. agricultural exports. Exports climbed to $59.8 billion, a gain of $5.2 billion from the previous year, and 1996 was the second consecutive year of record export growth. Today we are the world's leading exporter of agricultural products, commanding a 21 percent share of world agricultural trade. The U.S. agricultural trade surplus was $27 billion in 1996--the largest farm-trade surplus in history--making the agricultural sector the largest positive contributor to the

U.S. balance of trade. Nearly one million jobs are based on agricultural exports, and agricultural sales abroad account for nearly 10 percent of total merchandise exports.

Exports are critical to nearly every sector of U.S. agriculture. Nearly one half of the wheat produced in this country is destined for export markets. Thirty percent of feed grains and cotton are shipped abroad. USDA estimates that 47 percent of the U.S. soybean crop is exported. Overall, one out of every three acres of America's farms is dedicated to exports. Sales abroad account for between one quarter and two thirds of total sales of many fruits, vegetables, and nuts. Exports are also becoming increasingly important to U.S. ranchers and livestock producers. The United States is now a net meat exporter, and six percent of this year's production of pork and ten percent of beef output will end up on the plates of foreign consumers.

Agricultural exports now account for 30 percent of U.S. farm cash receipts, and that share will increase. Agricultural output is growing faster than domestic consumption. Last year's Farm Bill--the Federal Agriculture Improvement and Reform Act--altered dramatically the government's role in agriculture. Growing world population and rising incomes mean markets for U.S. farmers and ranchers, and a pivotal role for American agriculture in realizing global food security.

I want to assure this Committee of USTR's commitment to U.S. agriculture. As part of that commitment I am in the process of dedicating more resources to opening up agricultural markets abroad, and ensuring greater reciprocity for U.S. exports. In addition, Secretary Glickman and I have begun to improve the coordination between USDA and USTR so that we can maximize our impact and results.

Trade Policy Successes Create Market Opportunities for U.S. Agriculture

Today's impressive agricultural export numbers reflect the efficiency and competitiveness of U.S. agriculture. They also reflect years of bipartisan work to reduce trade barriers and gain access to foreign markets. The North American Free Trade Agreement (NAFTA) and the Uruguay Round created opportunities overseas for U.S. agriculture; opportunities that are reflected in today's export numbers. The Uruguay Round resulted in hard-won gains in disciplining export subsidies, improving market access, controlling domestic price supports, agreeing to sanitary and phytosanitary (SPS) disciplines, and establishing a tighter, more enforceable dispute settlement mechanism.

We have had some notable bilateral and multilateral successes. For example:

- We reached agreement with the EU on an overall framework for recognizing as equivalent each other's veterinary inspection systems. This should preserve most pre-existing trade in products such as petfood, dairy and egg products, and potentially open up new trade opportunities for beef and pork. Unfortunately, we were unable to resolve our differences on poultry, and we will continue our efforts in this area.

- We have fought and successfully ensured that bio-engineered products are getting access to the EU. As part of this effort, we have urged the EU to begin streamlining its approval process so that GMO's are treated fairly and consistently, and reviewed on a scientific basis in a timely and transparent manner.

- We have used the sanitary and phytosanitary principles in the NAFTA and the Uruguay Round to open markets for cherries, citrus, apples and meat.

- U.S. citrus exports are now entering Thailand, Brazil, and Mexico, and U.S. apples are being sold to Japan.

- During the Uruguay Round, we negotiated new access to Japan for U.S. pork and rice exports. Before these negotiations, Japan refused to purchase U.S. rice. Over the last two years they have purchased approximately 420,000 tons of our rice.

- We secured market access for U.S. orange and grape exports to Korea.

- In China, we have opened the market for U.S. live horses; apples from the states of Washington, Oregon, and Idaho; cattle, swine, bovine embryos, cherries, and most recently, grapes.

- Last year beef and veal exports to Mexico alone jumped nearly 80 percent.

Dispute Settlement, SPS Agreement Help U.S. Agriculture. American agriculture has especially benefited from the Uruguay Round's dispute settlement mechanism and the Sanitary and Phytosanitary (SPS) Agreement. In cases where countries are not living up to their commitments, the Uruguay Round Agreements provide a dispute settlement framework in which to pursue our rights. The dispute settlement process is still in its infancy; yet, we are already petitioners in 30 cases and we have succeeded in using the process to our advantage in two key agricultural cases involving Europe--bananas and beef hormones.

The WTO dispute settlement panel report on the EU's import licensing regime for bananas has important and positive implications for U.S. agriculture. The panel found that the EU administration of its import regime for bananas violated WTO rules on 16 counts. The panel's findings provide guidance on import licensing schemes that will help us fight barriers around the world. The panel report also strengthens our hand in preserving benefits for the United States obtained in the WTO's General Agreement on Trade in Services

Prior to the Uruguay Round, we were stymied by the EU in our efforts to use the existing dispute settlement process to challenge the EU's ban on imports of livestock products produced with growth-promoting hormones. This changed with the Uruguay Round. We have brought the EU to dispute settlement, presented our case, and the panel has issued a favorable preliminary report, supportive of our arguments. It found, as a preliminary matter, that the EU's health-related restrictions must have a scientific basis and that the hormone ban fails to meet the EU's SPS obligations.

The beef hormones and banana cases are not unique. We have favorably settled complaints with:

- *South Korea* on shelf-life standards for agricultural products;
- *Japan* on taxes on distilled spirits; and
- *EU* on tariffs on grain, including specific issues related to malting barley and rice.

We are engaged in the dispute settlement process with:

- *South Korea* over taxes on alcoholic beverages, and import clearance procedures;
- *Hungary* over its failure to keep the level of agricultural export subsidies within its Uruguay Round commitments;
- *Japan* over its varietal testing requirements for fruit imports and taxes on distilled spirits;
- *Philippines* over administration of its tariff rate quotas for pork and poultry; and
- *Australia* on its import ban on salmon.

<u>*Trade Agreements Preserve Benefits*</u>. NAFTA and the Uruguay Round created trade opportunities. They can also help preserve benefits during periods of economic downturn. After a $1-billion increase in U.S. agricultural exports to Mexico in 1994, a devaluation of Mexico's peso and severe economic recession in 1995 threatened long-term damage to the U.S. market. Were it not for the NAFTA, U.S. exports could have faced a repeat of the scenario following a similar economic shock in Mexico in 1982: a precipitous drop in U.S. exports followed by years before recovery.

During that earlier crisis, Mexican officials were not bound by NAFTA, or by the GATT. As a consequence, they were free to impose strict licencing requirements and prohibitively high duties on American products. This is exactly what they did. U.S. exports dropped by 50 percent, and it took 7 years to recover that export performance. Mexico's response to the 1995 crisis could not have been more different. Instead of raising barriers to U.S. products, Mexico continued to adhere to its commitments under NAFTA and reduce tariffs on schedule. Additionally, because of preferential access for U.S. products, the initial blow of the crisis fell more on other countries that compete in the Mexican market. As Mexico's fiscal situation began to stabilize and its economy slowly gained strength, U.S. exports recovered strongly, benefiting from progressively increased access, including two new rounds of tariff cuts, rather than being impeded by a new set of trade restrictions. Today, some 18 months after the crisis began, U.S. exports to Mexico are at an historic high.

Significant Hurdles Remain for U.S. Farm Exports

While U.S. agriculture is justly proud of its export success, we cannot ignore the obstacles that threaten future prosperity. We face bilateral, regional, and multilateral difficulties. And we must increasingly turn our attention to preparing for the next round of multilateral trade negotiations which are set to begin in the WTO in 1999.

SPS Restrictions More Visible. As we negotiate trade agreements that reduce tariffs, SPS barriers become more visible, relevant, and, to countries seeking to restrict access, attractive. We must guard against the increasing use of SPS barriers as the "trade barrier of choice." It is essential that the United States continue to exert leadership in this area. More of our agricultural trade issues today involve restrictions to trade on SPS bases. For example, Indonesia's proposed import requirements for fresh fruits and vegetables are of concern, as is Japan's insistence on variety-by-variety testing for pests on imports of U.S. apples and other fruits. As I mentioned earlier, we have held formal consultations with Japan on this issue. China, the EU, Chile, among others, increasingly use unscientific SPS barriers to impede or prohibit U.S. sales.

The SPS Agreement under the Uruguay Round provides a framework to resolve these restrictions on the basis of sound science. We used the SPS Agreement, for example, in our successful effort to have Korea convert to a manufacturer's shelf-life system which will benefit U.S. agricultural products on the Korean market. As our competitors negotiate bilateral and multilateral trade agreements, it is essential that the SPS portion of these agreements reflect U.S. leadership.

Regulatory & Labeling Obstacles. We also face regulatory hurdles that only threaten to increase barriers to U.S. farm exports. There is great interest in the EU in imposing labeling and segregation requirements on agricultural products and foods containing genetically modified organisms (GMO's). GMO's hold great promise for meeting the world's food security needs, widening consumer choice, improving nutritional content, and improving the environment. We must ensure that the consumer and policy debate in Europe and other countries about the safety and benefits of GMO's is based on science and that policies adopted by governments do not effectively reduce the access U.S. agriculture currently enjoys.

Let me be clear. Extensive regulatory review and testing in the United States and other countries demonstrate that GMO's produce safe and wholesome foods. I have communicated in the strongest way to EU officials our concerns on the issue of GMO's, possible segregation, consumer labeling and the need for regulatory transparency and science-based decisonmaking.

WTO Accession Talks. We also have a full agenda of accession negotiations regarding the WTO. As always, we are setting high standards for accession in terms of adherence to multilateral rules and market access. Accessions offer an opportunity to help ground new economies in the rules-based trading system. Regardless of other concessions, agricultural issues must be appropriately resolved in these accessions or there will be no entry into the WTO. Our approach has been to require bound tariffs and no other import restrictions. Where that has not been possible, we have required minimum access tariff-rate quotas that cause minimal distortion to trade. We have also insisted on firm SPS commitments, and have been taken steps to ensure that state-trading enterprises do not become non-tariff trade barriers.

The process of negotiating the terms of China's accession to the WTO is a major focus of our efforts to open up China for U.S. agricultural exports. It is a means not only to expand market access for U.S. exports, but also to bring China into compliance with international norms. While China has taken some constructive steps in recent meetings, much remains to be done. We will not conclude our WTO negotiations with China without receiving solid, commercially meaningful commitments on agriculture.

Bilaterally, over the last four years, we have reached agreement with China on measures that permit the importation of a number of U.S. agricultural products. But, despite a Memorandum of Understanding (MOU) between the United States and China dating to 1992, and China's implementation of much of that MOU, a number of market access problems remain for agriculture. In the 1992 Agreement, China committed to eliminate unscientific SPS restrictions used as market barriers. China's implementation of this commitment remains incomplete.

Restrictions affecting such U.S. exports as wheat from the Pacific Northwest, stone fruit, citrus, poultry, and pork products are not based on science and remain in place. This is a particular source of concern. We are engaged in an active work program to resolve these SPS restrictions.

New Agriculture Negotiations. The Uruguay Round made great strides in imposing discipline and reducing agricultural export subsidies. By the year 2000, the value of global agricultural export subsidies will be about one-third less than when the Uruguay Round Agreements were signed. This is impressive, but more work remains. Over one-third of the dispute settlement cases we have brought in the WTO, for example, concern agriculture issues. New issues, such as biotechnology and the proliferation of SPS barriers, command our attention. We will work with U.S. agriculture, the Congress, and other like-minded countries to develop a clear set of goals and objectives for the next round of agriculture negotiations.

Fast Track and U.S. Agriculture

We can pursue portions of our trade agenda with our existing tools. But, to seize the opportunities in the global economy and to fully meet the competition, the President needs a new grant of trade agreements implementing authority, or fast track. Fast track is a key component of our trade arsenal. The absence of agreed procedural authority to do so is the single most important factor limiting our capacity at this time to open markets and expand American exports and trade opportunities in the new global economy. Such authority is a prerequisite to U.S. negotiating credibility and success on major trade fronts. For that reason, the President has emphasized the importance of renewing fast track, and has instructed me to work with members of both Houses and both parties to forge a strong and workable grant of fast track authority.

For over 60 years, reacting to the lessons of the Smoot-Hawley tariff, America has led the effort to open foreign markets and increase U.S. and global prosperity. When the GATT was first formed in 1947, global tariffs averaged 40 percent among industrial nations. Today - after decades of bipartisan American leadership - global tariffs are closer to 5 percent and still declining. We have also set the rules for bringing down many nontariff barriers. That persistent market opening has led to a period of increased global commerce unprecedented in world history. It has created enormous opportunities for our companies and workers, provided a seedbed for democracy abroad and helped further greater stability in a still uncertain world. We should not turn our back on that pattern of leadership, or the economic prosperity it has created. This is especially true for agriculture.

Regional Trade Agreements Leave U.S. on the Sidelines, Threaten U.S. Leadership

America's farmers and ranchers are not alone in seeing the future in exports. All of our major competitors--the EU, Canada, Australia, Brazil and Argentina--are moving aggressively to develop foreign markets, often through preferential trade agreements that go around us, rather than include us. The United States risks being placed on the sidelines of global farm trade as our competitors secure access to markets at our expense. Increasingly, the rules are being written without us.

Nowhere does the rush to expand trade agreements affect U.S. agriculture more than in Latin America. The region is home to two major competitors for agricultural exports--Argentina and Brazil. Brazil, along with a host of other countries in the region, also holds promise as a major market for U.S. exports. A web of trading blocks and bilateral agreements, highlighted by the MERCOSUR group of Argentina, Brazil, Paraguay, and Uruguay, have effectively put in place common external tariffs against U.S. agricultural exports while providing preferential duties for farm trade within the region.

The consequences of these and other developments in Latin America for American agriculture are real, not theoretical:

- On a host of important U.S. agricultural exports, our producers face tariffs of 8 percent to 20 percent on shipments to MERCOSUR, while MERCOSUR members trade tariff-free amongst themselves on most products.

- When Chile's trade agreements are fully implemented, U.S. agricultural exporters will face, in addition to the price band system for wheat, wheat flour, sugar, and vegetable oils, an 11-percent tariff hurdle vis-a-vis exporters from MERCOSUR and many other nations in the hemisphere who have free trade agreements with Chile, including Canada.

- The Washington Apple Commission and the Oregon-Washington-California Pear Bureau have identified Columbia, Venezuela, Peru and Ecuador as potential growth markets. But these countries currently impose import duties of 15 percent to 25 percent on U.S. apples and pears while imports from Chile face little or no duty.

- Chile's bilateral agreement with Ecuador has put U.S. wine at a considerable disadvantage. U.S. wine faces a 25 percent tariff versus no duty for Chilean wine.

- Venezuela's membership in the Andean Pact and bilateral agreements with Chile and Argentina disadvantage several U.S. commodities, including soybeans and products; fresh and processed fruits; and wine. The value of these exports to Venezuela was just over $110 million in FY 1996. U.S. soybeans and products face variable import levies starting at 15 percent to 20 percent; fresh and dried fruit face a 15 percent duty and U.S. wine in Venezuela has a 20 percent import tariff. Imports of these products from members of the Andean Pact and/or Argentina and Chile face minimal duties in comparison. If U.S. products received the same preferences, the market share of U.S. agricultural products in Venezuela would increase substantially.

The danger of inaction in Latin America, and in other regions where free trade agreements are being signed, is the danger of lost opportunity for U.S. agriculture. We risk losing out increasingly to others in our own backyard, not because they are more efficient producers, but because they are party to trade agreements that put the United States at a commercial disadvantage. We need fast track authority as an important tool to level the playing field for U.S. agriculture in regional trade agreements and in agreements negotiated in the WTO.

Conclusion

Foreign trade is critical to continued U.S. prosperity. No sector has more at stake in expanding exports than agriculture. The continuing profitability and viability of U.S. agriculture -- its very future -- depends on the ability of U.S. producers to be competitive in a world market. In the face of unprecedented opportunities and challenges, continuing bipartisan collaboration between the Administration and Congress toward a bold, comprehensive trade and export strategy will ensure America's leadership in the global food and agricultural markets of the future.

The successes we have achieved in opening up markets for U.S. agriculture are many, but new problems and restrictions are before us. We must use every tool in our arsenal to ensure that the rules that emerge from on going international negotiations reflect our interests and our values. Fast track authority is one of the most important tools. U.S. leadership is essential if we are not only to maintain, but enhance our competitive position.

Every President since 1974, Democrat and Republican, has had the authority to implement comprehensive trade agreements. With renewal of fast track authority, we can continue to open new opportunities for agriculture; maintain the U.S. leadership role in initiating and writing new agreements; and better secure our economic future here in our own hemisphere. Without fast track, we could find ourselves in the marketplace of the 21st century playing by European, or Asian, or Latin American rules, and it is very unlikely that these rules will be written to expand substantially market access opportunities for U.S. agriculture.

I look forward to working with you on our trade agenda for the 21st century.